

FDIC State Profile

Winter 2004

West Virginia

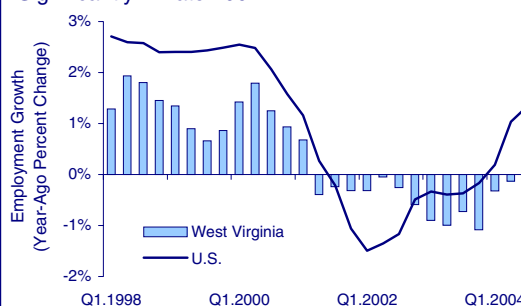
West Virginia's economy continued to recover with coal production leading the way.

- West Virginia's economy continued to improve through late 2004, though it somewhat lagged the national average. Only one of the state's metropolitan areas, **Wheeling**, saw employment growth during third quarter 2004 in excess of the national average. **Parkersburg** actually saw year-ago employment declines. Higher energy prices continue to drive the state's recovery as marked by **Charleston's** sharp rise in mining employment. Since the recent recession, job growth in West Virginia generally has tracked the nation (See Chart 1). Subsequently, the state also likely can expect continued modest payroll gains.
- Jobless rates in West Virginia were stable and just below the national average during the second half of 2004 (See Map 1). Wages and personal income tax collections are running well ahead of expectations, and increases in coal production and coal mining employment are on the upswing.
- The cost of operating state government is outpacing tax collections and, thereby, may constrain a stronger recovery. Healthcare is the greatest drain on the state's economy, and the growth in costs exceeds the state's economic growth rate. West Virginia ranked third in population growth in the 65+ age cohort in 2000, according to the *U.S. Census*, just behind Florida and Pennsylvania.

Residential construction activity in West Virginia continues to strengthen.

- Homebuilding is another positive indicator of West Virginia's economic recovery. Permit issuance continued to trend upward through late 2004, signaling that construction activity likely will persist into 2005.
- At community banks in West Virginia, construction and development (C&D) lending, which is primarily for residential real estate construction, grew 41 percent during the 12-month period ending September 30, 2004. This compares to a 21 percent growth rate in the year earlier period. At the end of third quarter 2004, C&D loans

Chart 1: West Virginia Payrolls Expanded Significantly in Late 2004



Map 1: Jobless Rates Remain High in Many West Virginia Counties

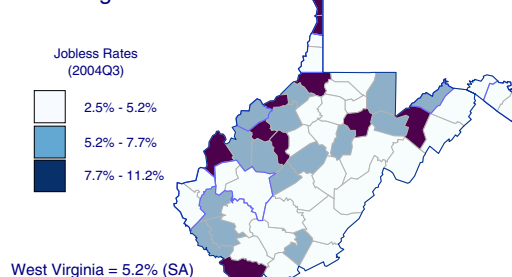
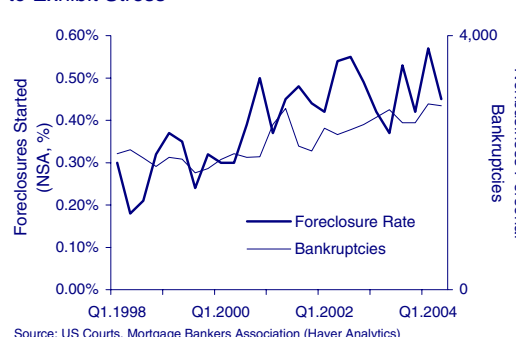


Chart 2: West Virginia Credit Conditions Continue to Exhibit Stress



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accounted for 2.3 percent of the total assets for banks headquartered in the state, up from 1.7 percent in the previous annual period. Nevertheless, high levels of home sales similarly reflect market resiliency.

- Home price appreciation, in most of the state's metropolitan markets, particularly **Parkersburg-Marietta**, continues to run below the national average, perhaps reflecting the ample supply of new construction. Going forward, West Virginia's residential markets will remain at risk from the threat of rising interest rates and persistent weak gains in both employment and incomes. Community banks headquartered in the state rely on real estate-related income for a large share of their earnings. While it is possible that strong loan growth may be muting any potential deterioration in C&D loan performance, asset quality metrics remained in good health. Nevertheless, a setback in housing could have substantial implications for the state's banking industry.

Several areas of West Virginia continue to see credit quality deterioration.

- Many West Virginia consumers remain under financial stress (See Chart 2). In terms of past-due consumer loans, the **Steubenville-Weirton** metropolitan area reported the fourth highest ratio in the nation. Moreover, personal bankruptcy filings accelerated in second quarter 2004 over the previous year, with the Steubenville-Weirton and **Cumberland** metropolitan areas reporting particularly high personal bankruptcy filings. Nationally, the state ranked high in personal bankruptcy filings in second quarter 2004, and foreclosure rates statewide were well ahead of the national average.
- At the end of third quarter 2004, home equity loans grew 37 percent over the 12-month period to 2.1 percent of assets, up from 1.6 percent a year earlier. While still a relatively small asset class, the potential for rising interest rates may increase the strain on some consumers through higher debt burdens. Signs of deteriorating loan performance have already emerged as total past-due and noncurrent loan levels rose during the period. Although nonperforming levels remained very manageable at just above 1 percent, this could signify the start of a trend that should be monitored, especially given the changing interest rate environment.

Earnings growth remains solid at West Virginia community banks as branching activity continues.

- Despite slowing earnings growth, net income at West Virginia community banks during the 12 months ending September 30, 2004, reached its highest level in the past three years at \$69 million. Both median net interest margins (NIMs) and return on assets (ROA) were steady

at 4.27 and 0.94 percent, respectively (See Chart 3). This compares to a median national NIM of 4.07 percent and a median national ROA of 1.06 percent.

- Despite a reduction in main offices from 1994 to 2004, branching activity in West Virginia has outpaced that of the nation. Branching growth has been mostly centered in Charleston and **Morgantown**, two of the state's largest metropolitan areas (See Chart 4).

Chart 3: Contributions to Return on Assets at West Virginia Community Banks

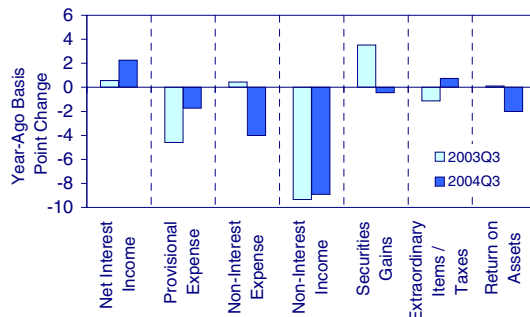
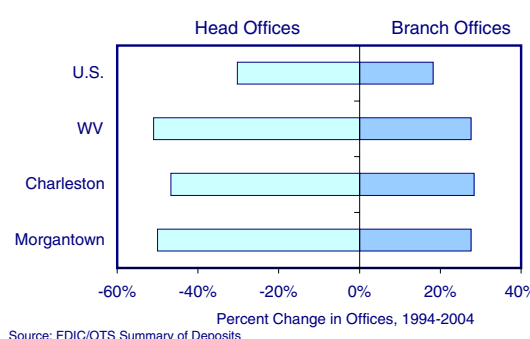


Chart 4: Branching Activity in West Virginia Exceeds the Nation



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West Virginia at a Glance

General Information	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Institutions (#)	74	74	77	79	85
Total Assets (in thousands)	19,837,111	18,518,759	20,015,032	18,820,451	23,265,896
New Institutions (# < 3 years)	1	3	3	5	5
New Institutions (# < 9 years)	11	11	10	10	9
Capital	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Tier 1 Leverage (median)	9.77	9.87	9.59	9.68	9.91
Asset Quality	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Past-Due and Nonaccrual (median %)	2.36%	2.30%	2.46%	2.70%	2.48%
Past-Due and Nonaccrual >= 5%	11	13	14	16	14
ALLL/Total Loans (median %)	1.14%	1.15%	1.19%	1.17%	1.12%
ALLL/Noncurrent Loans (median multiple)	1.62	1.70	1.35	1.34	1.55
Net Loan Losses/Loans (aggregate)	0.19%	0.23%	0.64%	0.50%	0.42%
Earnings (Year-to-Date Annualized)	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Unprofitable Institutions (#)	2	3	2	7	4
Percent Unprofitable	2.70%	4.05%	2.60%	8.86%	4.71%
Return on Assets (median %)	0.96	0.95	0.96	0.83	0.96
25th Percentile	0.74	0.72	0.75	0.57	0.64
Net Interest Margin (median %)	4.19%	4.09%	4.28%	4.12%	4.35%
Yield on Earning Assets (median)	5.70%	5.99%	6.85%	7.83%	8.07%
Cost of Funding Earning Assets (median)	1.55%	1.86%	2.52%	3.74%	3.77%
Provisions to Avg. Assets (median)	0.15%	0.17%	0.19%	0.18%	0.18%
Noninterest Income to Avg. Assets (median)	0.49%	0.49%	0.50%	0.48%	0.52%
Overhead to Avg. Assets (median)	2.94%	2.95%	2.93%	2.95%	2.98%
Liquidity/Sensitivity	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Loans to Deposits (median %)	79.19%	74.68%	72.99%	74.68%	77.43%
Loans to Assets (median %)	66.82%	61.67%	61.62%	62.37%	65.23%
Brokered Deposits (# of Institutions)	12	8	8	3	5
Bro. Deps./Assets (median for above inst.)	1.73%	0.59%	1.10%	0.60%	0.78%
Noncore Funding to Assets (median)	14.60%	13.22%	12.08%	12.43%	13.47%
Core Funding to Assets (median)	74.06%	74.94%	76.37%	76.09%	74.81%
Bank Class	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
State Nonmember	36	36	34	34	38
National	17	17	21	23	25
State Member	14	14	15	15	15
S&L	1	1	1	1	1
Savings Bank	6	6	6	6	6
Stock and Mutual SB	0	0	0	0	0
MSA Distribution	# of Inst.	Assets	% Inst.	% Assets	
No MSA	53	6,505,080	71.62%	32.79%	
Charleston WV	5	2,975,559	6.76%	15.00%	
Wheeling WV-OH	4	4,585,745	5.41%	23.12%	
Huntington-Ashland WV-KY-OH	4	850,935	5.41%	4.29%	
Steubenville-Weirton OH-WV	3	605,009	4.05%	3.05%	
Parkersburg-Marietta WV-OH	3	3,874,152	4.05%	19.53%	
Washington DC-MD-VA-WV PMSA	2	440,631	2.70%	2.22%	